

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY BEIRUT IMMEDIATE

C O N F I D E N T I A L STATE 166802

BEIRUT POUCH BAGHDAD

FOLLOWING REPEAT SECSTATE 166802 ACTION BAGHDAD INFO
JIDDA 31 JULY 1974. QUOTE:

C O N F I D E N T I A L STATE 166802

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: HIGH OIL PRICES

1. IN RECENT WEEKS, WE HAVE INSTRUCTED OUR AMBASSADORS
IN MOST OPEC CAPITALS TO DISCUSS HIGH OIL PRICES. WE
BELIEVE THAT CURRENT PRICE LEVELS ARE STRAINING THE
WORLD ECONOMY AND RETARDING ITS GROWTH. MAINTENANCE OF
THESE LEVELS COULD CAUSE SERIOUS AND LASTING DISLOCATIONS
AND LEAD TO VIRTUAL ECONOMIC COLLAPSE OF SOME LDCS. ON
THE BASIS OF CURRENT MARKET CONDITIONS, WE BELIEVE OIL
PRICES SHOULD BE FALLING RATHER THAN RISING. WE CONSIDER
THE RECENT OPEC DECISION TO RAISE ROYALTIES BY TWO PERCENT
AS UNWARRANTED EVEN THOUGH IT WAS SMALL IN COMPARISON TO
PRIOR INCREASES.

2. IN OUR DEMARCHES, WE HAVE EMPHASIZED THE ADVERSE EFFECT
OF HIGH OIL PRICES ON THE WORLD ECONOMY AND ESPECIALLY
ON LDCS. WE HAVE HIGHLIGHTED THE THREAT TO THE
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PRODUCERS' LONG-TERM POTENTIAL EARNINGS SINCE HIGH PRICES

STIMULATE INCREASED INVESTMENT INTO ALTERNATIVE SOURCES OF ENERGY. IN SOME CASES, WE HAVE ALSO USED OUR REPRESENTATIONS TO ENCOURAGE A DIALOGUE THAT WILL FOSTER POSITIVE FINANCIAL, COMMERCIAL, AND INDUSTRIAL RELATIONS.

3. AT YOUR DISCRETION, YOU SHOULD DRAW ON THE TALKING POINTS BELOW EITHER IN MAKING REPRESENTATIONS TO APPROPRIATE IRAQI OFFICIALS OR IN PREPARING AN AIDE MEMOIRE FOR PRESENTATION TO THE FOREIGN OFFICE:

-- I HAVE BEEN INSTRUCTED TO BRING TO THE ATTENTION OF YOUR GOVERNMENT, MY GOVERNMENT'S DEEP CONCERN WITH OIL PRICE DEVELOPMENTS. OUR CONCERN IS BEING EXPRESSED TO OTHER OPEC GOVERNMENTS AS WELL AS YOURS.

-- THE DIRECT AND INDIRECT BURDEN OF HIGH OIL PRICES ON THE WORLD'S CONSUMERS IS A HEAVY ONE. THE PLIGHT OF DEVELOPING CONSUMER COUNTRIES IS PRESSING; IN SOME CASES, INCREASED EXPENDITURES FOR ENERGY ARE SURPASSING THEIR TOTAL AID RECEIPTS AND COULD LEAD TO VIRTUAL ECONOMIC COLLAPSE.

-- WE BELIEVE THE RECENT TWO PERCENT OPEC INCREASE FOR EXAMPLE -- ALTHOUGH SMALL IN COMPARISON TO PRIOR INCREASES -- WILL FURTHER STRAIN THE WORLD ECONOMY.

-- WE BELIEVE HIGH PRICE LEVELS ARE IN THE INTEREST OF NEITHER CONSUMERS NOR PRODUCERS. IN THE SHORT RUN, THEY HURT CONSUMERS. BUT IN THE LONG RUN, PRODUCERS WILL LOSE BECAUSE MAINTENANCE OF HIGH PRICES WILL STIMULATE ALTERNATIVE SOURCES OF ENERGY AND ALTERNATIVES TO ENERGY USE. THE EFFECT WILL BE TO REDUCE THE TOTAL VALUE THE OIL EXPORTERS RECEIVE OVER THE LIFE OF THEIR PRODUCING FIELDS. THE NET RESULT WILL BE DISADVANTAGEOUS TO ALL.

-- WE RECOGNIZE THAT PRODUCING COUNTRIES ARE ANXIOUS TO PROTECT THEIR REAL EARNINGS IN THE CURRENT WORLD-WIDE INFLATION. HOWEVER, THESE COUNTRIES SHOULD ALSO RECOGNIZE THAT THE TREMENDOUS INCREASES IN OIL PRICES
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OF THE PAST SEVERAL MONTHS ARE IN THEMSELVES A MAJOR CAUSE OF WORLD INFLATION.

-- IN OUR INTERDEPENDENT WORLD, THE ECONOMIC FUTURES OF ALL COUNTRIES ARE CLOSELY RELATED. ALL NATIONS,

PRODUCERS AND CONSUMERS, WILL SUFFER IN A WORLD THAT IS CHARACTERIZED BY FALTERING AND FAILING ECONOMIES. WE URGE

YOUR GOVERNMENT TO RECONSIDER ITS PRICING POLICY IN GENERAL.
IN PARTICULAR, WE HOPE YOU WILL NOT INCREASE PRICES FURTHER
AT THIS TIME.

4. PLEASE REPORT ANY REACTION OF THE IRAQI GOVERNMENT TO
OUR DEMARCHE.

UNQUOTE KISSINGER

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